

PUBLIC HOSPITAL DISTRICT NO. 1 AND NO. 304 OF SKAGIT COUNTY
DBA AFFILIATED HEALTH SERVICES
Skagit County, Washington
January 1, 1994 Through December 31, 1994

Schedule Of Federal Findings

1. Affiliated Health Services Should Retain Time And Effort Distribution Records To Support Federal Reimbursement Requests

Amounts charged to the Special Supplemental Food Program for Women, Infants, and Children (WIC) (CFDA 10.557) for personal services were based on budget estimates as approved in the grant agreement. Time and effort distribution records were not retained to support this allocation of payroll costs.

The U.S. Office of Management and Budget (OMB) Circular A-87, *Cost Principles Applicable to Grants and Contracts*, establishes standards for documentation and allowability of costs charged to federal grant programs. Among these standards are:

- a. Amounts charged to grant programs for personal services will be based on payrolls supported by time and attendance or equivalent records for individual employees.
- b. Salaries and wages of employees chargeable to more than one cost objective must be supported by time distribution records.

OMB Circular A-87 specifically requires that charges to a federal program must:

. . . reflect an after-the-fact distribution of the actual activity of each employee. Budget estimates before services are performed do not qualify as support for charges to awards.

The grant award contract, Exhibit A, No. 13 states:

The contractor shall maintain complete, accurate, and current accounting of all local, state and federal program funds received and expended.

This concern was brought to Affiliated Health Services attention in December 1994, which was too late to institute corrective action for 1994 claims. Corrective action was initiated in January 1995.

In the absence of a system that meets the federal requirements, costs could be charged to the federal program which vary from the resources that were actually dedicated to the program. The absence of documentation has resulted in questioned costs of \$22,581 for 1994, representing all salary costs charged to the WIC grant. In addition, the hospital prepares a nutrition education expenditure report to the Washington State Department of Health. As a result of the lack of documentation, the hours and percentages included on

the report could not be supported. This is considered a material weakness.

We recommend Affiliated Health Services work with the Washington State Department of Health to resolve the above noted questioned costs. We further recommend Affiliated Health Services establish a system for tracking actual expenses eligible for federal reimbursement. Future reimbursement requests should be limited to expenditures so identified.

2. Affiliated Health Services Should Maintain Adequate Documentation To Support Payroll Charges To Support Federal Reimbursement Requests

Payroll charges are made to the federal Injury Prevention Program (CFDA 93.136) based on a standard percentage (20 percent) of the coordinator's salary and benefits as approved in the grant agreement. Time and effort distribution records were not retained to support this allocation. Documentation which was available to support performance of duties applicable to the Injury Prevention Program included an appointment calendar, quarterly reports, newspaper articles, and Bicycle Helmet Promotion Coalition agendas and minutes.

The U.S. Office of Management and Budget (OMB) Circular A-87, *Cost Principles Applicable to Grants and Contracts*, establishes standards for documentation and allowability of costs charged to federal grant programs. Among these standards are:

- a. Amounts charged to grant programs for personal services will be based on payrolls supported by time and attendance or equivalent records for individual employees.
- b. Salaries and wages of employees chargeable to more than one cost objective must be supported by time distribution records.

OMB Circular A-87 specifically requires charges to a federal program must:

. . . reflect an after-the-fact distribution of the actual activity of each employee. Budget estimates before services are performed do not qualify as support for charges to awards.

The contract with the Department of Health (DOH) states:

DOH shall pay to the Contractor for those services provided herein as follows . . . Actual costs in accordance with Exhibit B. (Emphasis ours.)

The administrator of the Injury Prevention grant during 1992 through August 1993 was hired solely for this grant. Therefore, time distribution records were not required. In September 1993, Injury Prevention grant administration was assigned to an employee who had duties chargeable to more than one cost objective. The previous grant administrator mistakenly instructed the new administrator that time distribution records were not necessary.

This concern was brought to Affiliated Health Services attention in December 1994 in conjunction with the audit of 1992 and 1993. Due to the timing, no corrective action for 1994 claims was possible.

In the absence of a system that meets the federal requirements, costs could be charged to the federal program which vary from the resources that were actually dedicated to the program. The absence of documentation has resulted in questioned costs of \$6,760 for 1994, representing all salary and benefit costs charged to the Injury Prevention Program.

We recommend Affiliated Health Services work with the Department of Health to resolve the above noted questioned costs. We further recommend Affiliated Health Services establish a system for tracking actual expenses eligible for federal reimbursement and that future reimbursement requests be limited to expenditures so identified.

3. Affiliated Health Services Should Retain Documentation To Support Expenditures Claimed For Reimbursement

Our review disclosed expenses claimed for reimbursement under the Special Supplemental Food Program for Women, Infants, and Children (WIC) (CFDA 10.557) were inadequately documented. Expenses were claimed based on purchase orders issued. These purchase orders were not retained by the department preparing the reimbursement request. No other means could be identified to isolate these expenditures.

Attachment F of Circular A-110 states:

"Recipients" financial management systems shall provide for:

b. Records that identify adequately the source and application of funds for federally sponsored activities. These records shall contain information pertaining to . . . outlays . . .

g. Accounting records that are supported by source documentation.

The grant award contract, Exhibit A, No. 13 states:

The contractor shall maintain complete, accurate, and current accounting of all local, state and federal program funds received and expended.

This condition apparently occurred due to staff misunderstanding of their responsibility for and the nature of the requirements.

As a result of this condition, costs of \$1,148 for fiscal year 1994 are being questioned. These costs represent claims for supplies, conferences, other services, and equipment purchases initiated through the payment voucher system.

We recommend Affiliated Health Services work with the Washington State Department of Health to resolve these questioned costs. We further recommend Affiliated Health Services retain sufficient documentation and records to support actual expenditures claimed for federal reimbursement.

4. Affiliated Health Services Should Retain Documentation To Support Indirect Costs Claimed For Reimbursement

In conjunction with our review of the federal program, Heart Health Demonstration Project (CFDA 93.991), we noted documentation for costs related to duplicating, mailing, and faxing was not maintained. These costs were charged to the grant through estimates made by the program coordinator.

Affiliated Health Services did not have an approved indirect cost allocation method. This concern was brought to Affiliated Health Services attention in December 1994, which was too late to institute corrective action for 1994 claims.

Attachment F of the Office of Management and Budget (OMB) Circular A-110 states:

"Recipients" financial management systems shall provide for:

b. Records that identify adequately the source and application of funds for federally sponsored activities. These records shall contain information pertaining to . . . outlays . . .

f. Procedures for determining the reasonableness, allowability and allocability of costs in accordance with the provisions of the applicable Federal cost principles and the terms of the grant or other agreement.

g. Accounting records that are supported by source documentation.

OMB Circular A-88 defines the requirements for establishing indirect cost rates which include:

5a. . . . Indirect cost rates will be established by one of the following methods: (1) formal negotiation . . . (2) informal negotiation . . .

5c. The cognizant agency will formalize all determinations or agreements reached with the institution

Our review of two months from 1994 billing worksheets identified one immaterial exception in the amount of \$25. Total indirect costs claimed for 1994 were approximately \$300.

We recommend Affiliated Health Services prepare reimbursement requests based on actual amounts adequately supported or based on an established and approved indirect cost system. We further recommend Affiliated Health Services work with the Washington State Department of Health to resolve questioned costs of approximately \$300.